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BEFORE THE ARIZONA CORPORATION C...

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BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF ESTATE OF WILLIAM F. RANDALL DBA VALLE VERDE WATER COMPANY FOR AN INCREASE IN ITS WATER RATES.

DOCKET NO. W-01431A-13-0265

STAFF'S NOTICE OF FILING DIRECT TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of Gerald Becker in the above docket.

RESPECTFULLY SUBMITTED this 13th day of January 2014.

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Original and thirteen (13) copies
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13th day of January 2014 with:

Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
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SUSAN BITTER SMITH
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IN THE MATTER OF THE APPLICATION OF THE ESTATE OF WILLIAM F. RANDALL DBA VALLE VERDE WATER COMPANY FOR AN INCREASE IN ITS WATER RATES	DOCKET NO. W-01431A-13-0265

DIRECT

TESTIMONY

OF

GERALD BECKER

EXECUTIVE CONSULTANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 13, 2014

TABLE OF CONTENTS

PAGE

INTRODUCTION 1

BACKGROUND 2

CONSUMER SERVICE 3

COMPLIANCE 4

RATE APPLICATION 4

SUMMARY OF PROPOSED REVENUES 5

RATE BASE 8

- Fair Value Rate Base 8
- Rate Base Summary 8
- Rate Base Adjustments – Utility Plant in Service ("UPIS") and Accumulated Depreciation 8
- Rate Base Adjustment No. 1 – Remove Capitalized Expenses 9
- Rate Base Adjustment No. 2 – Not Used and Useful Plant 9
- Rate Base Adjustment No. 3 – Reclassification 9

OPERATING INCOME 9

- Operating Income Summary 9
- Operating Income Adjustment No. 1 – Excess Water Loss 10
- Operating Income Adjustment No. 2 – Office Supplies and Expense 11
- Operating Income Adjustment No. 3 – Outside Services 12
- Operating Income Adjustment No. 4A – Water Testing Expense 16
- Operating Income Adjustment No. 4B – Insurance Expense 16
- Operating Income Adjustment No. 5 – Depreciation and Amortization Expense 17
- Operating Income Adjustment No. 6 – Income Taxes 18
- Operating Income Adjustment No. 7 – Property Taxes 19
- Other Considerations 22

SCHEDULES

Revenue Requirement GWB-1

Gross Revenue Conversion Factor GWB-2

Rate Base – Original Cost GWB-3

Summary of Original Cost Rate Base Adjustments GWB-4

Rate Base Adjustment #1 – Remove Capitalized Expenses GWB-5

Rate Base Adjustment #2 – Not Used and Useful Plant GWB-6

Rate Base Adjustment #3 – Reclassification GWB-7

NOT USED – GWB-8

NOT USED – GWB-9

Operating Income Statement - Test Year and Staff Recommended GWB-10

Summary of Operating Income Adjustments - Test Year GWB-11

Operating Income Adjustment #1 – Excess Water Loss GWB-12

Operating Income Adjustment #2 – Office Supplies and Expense GWB-13

Operating Income Adjustment #3 – Outside Services GWB-14

Operating Income Adjustment #4 – Insurance Expense GWB-15

Operating Income Adjustment #5 – Depreciation Expense GWB-16

Operating Income Adjustment #6 – Income Tax Expense GWB-17

Operating Income Adjustment #7 – Property Tax & GRCF Component GWB-18

EXECUTIVE SUMMARY
THE ESTATE OF WILLIAM F. RANDALL
DBA VALLE VERDE WATER COMPANY
DOCKET NO. W-01431A-13-0265

The Estate of William F. Randall dba Valle Verde Water Company ("Valle Verde" or "Company") is a certificated Arizona public service corporation that provides water service near the City of Nogales in Santa Cruz County. The average number of customers per Company during the test year was approximately 760 in its 1.5 square mile service territory.

On July 31, 2013, Valle Verde filed an application for a rate increase using a test year ending December 31, 2012. Staff issued its letter of sufficiency on August 30, 2013.

Valle Verde states that it experienced a $26,332 test year operating loss. Valle Verde proposes a revenue increase of $170,653 or 36.09 percent over Company proposed test year revenues of $472,791 to $643,444. The Company's proposed revenue increase would produce an operating income of $86,099 for a 13.38 percent operating margin and provide $48,195 of cash flow after all expenses, obligations under its WIFA debt and repayments under its main extension agreements are satisfied. The Company proposes to use a negative $351,683 as its Original Cost Rate Base ("OCRB") which is also its fair value rate base.

Staff recommends a revenue increase of $57,961 or 12.26 percent over the test year revenues of $472,791 to $530,752. The Staff recommended revenue increase would produce an operating income of $53,353 which would provide $48,000 of cash flow after all expenses and obligations under its WIFA debt including payments to cover the Debt Service Reserve. Staff recommends a negative $388,497 as its OCRB which is also its fair value rate base.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Gerald Becker. I am an Executive Consultant III employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as an Executive Consultant III.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. In addition, I develop revenue requirements, and prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Masters of Business Administration with an emphasis in Accounting from Pace University. I am a Certified Public Accountant and a Certified Internal Auditor. I am a member of the Arizona State Society of Certified Public Accountants.

I have participated in multiple rate, financing and other regulatory proceedings. I attended the National Association of Regulatory Utility Commissioners ("NARUC") Utilities Rate School.

I began employment with the Commission as a utilities regulatory analyst in April 2006. Prior to joining the Commission, I worked as an Auditor at the Department of Economic Security and Department of Revenue in the Taxpayer Assistance Section. Prior to those jobs, I worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget Manager at United Illuminating, an investor-owned electric company in New Haven, CT.

Q. What is the scope of this testimony in this case?

A. I am presenting Staff's analysis and recommendations in the areas of rate base, operating revenues and expenses and revenue requirement. Staff witness Dorothy Hains is presenting Staff's engineering analysis and recommendations.

Q. What is the basis of your recommendations?

A. I performed a regulatory audit of the Company's application to determine whether sufficient, relevant, and reliable evidence exists to support the Company's requested rate increase. The regulatory audit consisted of examining and testing the financial information, accounting records, and other supporting documentation and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USOA"). I also reviewed the Company's financing applications to determine the propriety and financial impacts of the proposed transactions.

BACKGROUND

Q. Please review the background of these applications.

A. The Estate of William F. Randall dba Valle Verde Water Company ("Valle Verde" or "Company") is a certificated Arizona public service corporation that provides water service to customers near the City of Nogales in Santa Cruz County. Valle Verde is owned by the estate of William F. Randall.

The Company's current rates were authorized in Decision No. 71899, dated September 20, 2010. That Decision authorized a $285,075 revenue increase, or 103.04 percent increase over then test year revenues of $276,656, that provided a 10.09 percent operating margin. The negative fair value rate base of $593,061 was not meaningful. Decision No. 71899 also authorized a temporary surcharge of $.60 per thousand gallons to pay for indebtedness to the City of Nogales for water that was purchased when Valle Verde had problems with its own wells.

On May 17, 2012, the Company filed an application pursuant to A.R.S. §40-252 asking the Commission to amend Decision No. 71899 to continue a temporary surcharge and to apply the revenues gained thereby to pay Southwestern Utility Management, Inc., the Company's interim manager ("Interim Manager") which had been appointed by the Commission in 2007 to ensure the continuation of adequate service at reasonable rates. The Company had been owned and operated by William F. Randall; after his death, the Company fell into financial and operational disarray. At that time, the Company owed the Interim Manager $78,589.03. The Commission issued Decision No. 73353 (August 21, 2012) which authorized continuation of the surcharge to pay indebtedness owed to the Company's Interim Manager, subject to certain conditions discussed more fully therein.

The debt to the Interim Manager is expected to be repaid by the time the instant case is decided, and is not included in Staff's recommended revenue requirements in this proceeding.

CONSUMER SERVICE

Q. Please provide a brief history of customer complaints received by the Commission regarding the Company.

A. A search of Consumer Services complaint files reveals the following customer complaints against Valle Verde:

2010 – one complaint- new service

2011 – eight complaints – two (billing), one (deposits), one (could not reach Company)

2012 – zero complaints

2013 – one complaints – one (billing)

There have been no opinions filed in support or opposition to the rate case.

All complaints have been resolved and closed.

COMPLIANCE

Q. Please provide a summary of the compliance status of the Company.

A. A check of the Utilities Division Compliance Database indicates that there is currently one delinquency for the Company. As discussed more fully in the Staff Engineering Report, Decision No. 71899 ordered the Company to monitor its water losses and, if such losses exceeded 10 percent, the Company would prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. To date, the Company has not filed such report or plan, and test year water loss for the East System is 17 percent, as discussed more fully in Staff's Engineering testimony. Staff recommends that any rate increase approved in this proceeding not become effective until the Company submits a water loss reduction plan or a detailed cost benefit analysis for its East System, as required by Decision No. 71899.

RATE APPLICATION

Q. What are the primary reasons for the Company's requested permanent rate increase?

A. The Company's application states that during the test year it experienced a loss of $26,332 due to declining water sales.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize the Company's filing.

A. Valle Verde proposes a revenue increase of $170,653, or 36.09 percent over the Company proposed test year revenues of $472,791, to $643,444. The Company's proposed revenue increase would produce an operating income of $86,099 for a 13.38 percent operating margin and a Debt Service Coverage ("DSC") of 1.37. The Company proposes a negative $351,683 as its Original Cost Rate Bases ("OCRB") which is also its fair value rate base.

Q. Please summarize Staff's recommended revenue.

A. Staff recommends a revenue increase of $57,961, or 12.26 percent over the test year revenues of $472,791, to $530,752. The Staff recommended revenue increase would produce an operating income of $53,353 which would provide $48,000 of cash flow after all expenses and obligations under its Water Infrastructure Finance Authority of Arizona ("WIFA") debt including payments to cover the Debt Service Reserve. Staff recommends a negative $388,497 as its OCRB which is also its fair value rate base.

Q. What test year did the Company use in this filing?

A. The Company rate filing is based on the twelve months ended December 31, 2012 ("test year").

Q. Please summarize the rate base and operating income recommendations and adjustments addressed in your testimony for the Company.

A. My testimony addresses the following issues:

<u>Utility Plant in Service ("UPIS")</u> – There are three adjustments made to UPIS. One is to remove capitalized expenses of $28,740 from account 320.1, Storage Tanks. The second adjustment removes plant that is not used and useful by $9,292. The third adjustment reclassifies several plant items among various NARUC accounts with no net change to UPIS.

<u>Accumulated Depreciation</u> – These adjustments decrease Accumulated Depreciation by $1,219 from $2,038,838 to $2,037,619. The adjustments of $479 and $740 correspond to the above adjustments to UPIS to remove capitalized expense and not used and useful plant, respectively.

<u>Purchased Power</u> – This adjustment decreases Fuel and Power Expense by $694 from $33,909 to $33,215 to remove the purchased pumping power costs related to continuing high water losses. While Staff recognizes that this adjustment and the adjustment to Chemicals Expense discussed below are low value adjustments, Staff recommends these monetary adjustments to augment Staff's recommendation that any rates approved in this proceeding not become effective until the Company achieves compliance by filing a plan to reduce its water loss below 10 percent, as discussed more fully in both the Compliance Section of this report and in the testimony of Staff's engineering Witness, Dorothy Hains.

Chemicals – This adjustment decreases Chemicals Expense by $24 from $1,161 to $1,137 to remove the chemical expenses related to continuing high water losses, as discussed above.

Office Supplies and Expense – This adjustment decreases Office Supplies and Expense by $7,663 from $27,333 to $19,670 to remove utility costs of $2,583 not necessary for the provision of service and administrative fees of $5,080 related to the WIFA that are not operating expenses and are instead treated 'below the line'.

Outside Services Expense – This adjustment decreases Outside Service Expense by $7,663 from $27,333 to $19,670 to remove expenses that are non-recurrent or unnecessary for the provision of service.

Water Testing Expense – This adjustment increases Water Testing Expense by $581 from $7,584 to $8,165 to reflect Staff's recommend level of expense in this proceeding.

Insurance Expense – This adjustment decreases Insurance Expense by $2,323 from $13,290 to $10,967 to remove insurance expense for property that is not necessary for the provision of service.

Depreciation and Amortization Expense – This adjustment increases Depreciation and Amortization Expense by $6,442 from $101,017 to $107,459 to reflect Staff's recommended adjustments to UPIS, the Staff recommended depreciation rates in this proceeding, and the application of Staff's calculated amortization rate to the Company's Contributions in Aid of Construction ("CIAC").

Property Tax Expense – This adjustment decreases property tax expenses by $1,392 from $18,558 to $17,167 to reflect the property tax obligation on Staff's adjusted test year taxable income and to reflect an 18.5 percent assessment valuation that is expected to apply to prospective revenues.

Income Tax Expense – This adjustment increases income tax expense by $7,617 from a negative $7,617 to zero to reflect the Net Operating Loss carry forward that will eliminate any tax obligations of the beneficiaries of the estate.

RATE BASE

Fair Value Rate Base

Q. Did the Company prepare schedules showing the elements of Reconstruction Cost New Rate Base?

A. No, the Company did not. The Company requested that their original cost rate bases be treated as their fair value rate bases.

Rate Base Summary

Q. Please summarize Staff's adjustments to the Company's rate base shown on Schedules GWB-3 and GWB-4.

A. Staff made adjustments to reduce the Company's rate base by $36,813 from a negative $351,683 to a negative $388,497 as shown on Schedules GWB-3 and GWB-4.

Rate Base Adjustments – Utility Plant in Service ("UPIS") and Accumulated Depreciation

Q. What amount of UPIS did the Company include in its rate base?

A. The Company included $4,180,261 as UPIS.

Q. Did Staff identify adjustments to UPIS?

A. Yes. Staff identified two adjustments to reduce UPIS by $38,032 from $4,180,261 to $4,142,229, as shown on Schedules GWB-4, GWB-5, and GWB-6.

Rate Base Adjustment No. 1 – Remove Capitalized Expenses

Q. Please explain Staff's recommended reclassification of capitalized expenses from UPIS.

A. Staff identified $28,740 of expenses that were incorrectly included in UPIS. Staff recommends a decrease of $28,740 to the UPIS balance with a corresponding decrease of $479 to Accumulated Depreciation, as shown on Schedules GWB-4 and GWB-5.

Rate Base Adjustment No. 2 – Not Used and Useful Plant

Q. Please explain Staff's recommended adjustment to plant that is not used and useful.

A. Staff recommends a decrease to UPIS of $9,292 from the Company's proposed test year plant for plant items that are not used and useful, with a corresponding decrease of $740 to Accumulated Depreciation, as shown on Schedules GWB-4 and GWB-6.

Rate Base Adjustment No. 3 – Reclassification

Q. Please explain Staff's recommended adjustment to reclassify certain items of plant.

A. Staff identified certain items of plant that were not recorded in the correct account. Staff recommends the reclassifications as shown on Schedules GWB-4 and GWB-7. Staff recommended reclassification has zero net impact on total UPIS.

OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of test year revenues, expenses and operating income for the Company?

A. Staff's analysis resulted in test year revenues, expenses, and operating income of $476,699, $476,118, and a negative $3,908, respectively.

Q. Is Staff recommending any adjustments to operating income in this case?

A. Yes. Staff recommends the following adjustments.

Operating Income Adjustment No. 1 – Excess Water Loss

Q. Did the Company experience water loss in excess of 10 percent during the test year?

A. Yes. As described in the testimony of Staff witness Dorothy Hains, the Company experienced a water loss of 17.1 percent and 3.2 percent in its East and West systems, respectively, during the test year. These losses represent an overall loss of 12.3 percent for the Company.

Q. Did Staff adjust Purchased Power and Chemicals Expense?

A. Yes. Staff reduces Purchased Power and Chemicals Expense by $694 and $24, respectively.

Q. Why did Staff adjust Purchased Power and Chemicals Expense?

A. The Company has water loss greater than that recommended by Staff as discussed in greater detail by Staff witness, Dorothy Hains. The cost of the purchased power used to pump the water that is lost does not provide a benefit to customers; consequently, Staff reduced the purchased power to correspond to the portion of the water loss that is above Staff's recommended maximum level of 10 percent. Similarly, the cost of chemicals to treat water that is lost does not provide a benefit to customers; consequently, Staff reduced the purchased power to correspond to the portion of the water loss that is above Staff's recommended maximum level of 10 percent.

Q. What is Staff's recommendation?

A. Staff recommends decreasing the purchased power by $694, from $33,909 to $33,215, and chemicals expense by $24, from $1,161 to $1,137, to remove the purchased pumping and chemical costs related to continuing high water losses as shown on Schedules GWB-11 and GWB-12.

Operating Income Adjustment No. 2 – Office Supplies and Expense

Q. What amount of Office Supplies and Expense did the Company propose?

A. The Company proposes to include a total of $27,333 which included $954 for trash removal during the first 10 months of the year, $579 for natural gas and $1,050 for electricity used at a now defunct office, and $5,080 of administrative fees paid to WIFA in connection with a WIFA loan.

Q. Did Staff adjust the Office Supplies and Expense proposed by the Company?

A. Yes.

Staff removed the trash removal costs of $954 because the Company was unable to explain the business purposes of these expenses and also because these expenses occurred during the first ten months of the test year and then ceased., This indicates that, even if these were necessary expenses during part of the test year, their cessation by the end of the year would require their removal as a known and measureable change to test year results.

Staff removed the $579 for natural gas and $1,050 for electricity at the now defunct or former company office. As discussed more fully below under outside services, the Company has retained Southwest Utility Management ("SUM") as an interim manager and SUM has its own offices. Payment of utility expenses on a former and now defunct office would be a duplicative and unnecessary burden on the ratepayers.

Staff removed the $5,080 of administrative fees paid to WIFA because these costs are associated with supporting the WIFA debt. Like interest, administrative fees are part of the cost of borrowing and are not treated as operating expenses. Instead, these amounts are treated 'below the line' and are included in Staff's cash flow analysis used to calculate its recommended revenue requirements, as discussed more fully below.

Q. What is Staff's recommendation?

A. Staff recommends decreasing the Office Supplies and Expense by $7,663 from $27,333 to $19,670, as shown on Schedules GWB-11 and GWB-13

.

Operating Income Adjustment No. 3 – Outside Services

Q. What amount of Outside Services Expense did the Company propose?

A. The Company proposes to include a total of $151,235 for outside services consisting of $128,937 for management fees, $19,498 in legal fees, and $2,800 in accounting fees.

Q. Did Staff adjust the Outside Services Expense proposed by the Company?

A. Yes. In response to a Staff data request the Company provided additional information regarding its Outside Services Expense.

Management Fees

In response to a Staff data request the Company provided additional information regarding its management fees for service provided by SUM. SUM charges the Company a fee of $11.25 per month per customer. This billing resulted in charges of $9,855.00 per month at the beginning of the test year and $9,866.25 at the end of the test year. However, a review of management fees indicates inclusion of 11 months of fees at $9,855.00 per month, and two months of fees at $9,866.25, plus $1,050.00 for the management of certain WIFA loan related projects, less $250.97 for a prior period or out of test year adjustment related to some labor that was previously billed to the Company by SUM. Staff recommends that management fees be set at $9,866.25 per month, or $118,395 annually, as shown on Schedules GWB-11 and GWB-14. Staff recommends that the costs related to the management of certain WIFA loan related projects are more appropriately included as part of the costs of those projects, and that prior period adjustments be disregarded.

Legal Fees

Q. What amount of legal fees did the Company propose?

A. In response to a Staff data request the Company indicates that it proposes total legal expenses of $19,497.91, of which $11,722.41 was paid to Moyes, Sellers and Hendricks, and $7,775.50 was paid to William Wissler, Esq.

Q. Did Staff question the necessity of retaining two separate law firms?

A. Yes, Staff sent the Company a data request to address this and some other issues related to legal and insurance expenses. As of the date of writing this testimony, those responses were not yet received. However, Staff had received responses to previous data requests and bases the following on the responses already received. Staff will update its position in its surrebuttal testimony, as appropriate, based on the Company's outstanding responses to Staff's data request.

Q. Did Staff adjust the legal expenses proposed by the Company paid to Moyes, Sellers and Hendricks?

A. Yes. A review of the $11,742.41 paid to Moyes, Sellers and Hendricks indicates that $9,538.41 was paid for non-WIFA related expenses during the period from March 15, 2012 through September 12, 2012 and that these monies were mostly, if not entirely, related to the Company's request to re-open Decision No. 71899, as filed on May 17, 2012. Decision No. 71899 authorized a temporary surcharge of $.60 per thousand gallons to pay for indebtedness to the City of Nogales for water that was purchased when Valle Verde had problems with its own wells. The purpose of the Company request in its §40-252 proceeding was to seek approval to continue its surcharge of $0.60 per thousand gallons approved in Decision No. 71899 in order for the Company to continue paying an unpaid debt to SUM, its interim manager. The Commission issued Decision No. 73353 which authorized continuation of the surcharge to pay indebtedness owed to the Company's Interim Manager, subject to certain conditions discussed more fully therein.

Staff recommends a decrease of the legal expenses of $9,538.41 to process the Company's §40-252 proceeding for two reasons. First, the amount is not expected to reoccur in future periods. Second, the expenses to re-open a *prior* rate case are expenses related to that prior rate case and should not be recovered in this proceeding.

Q. Did Staff adjust the legal expenses proposed by the Company paid to William Wissler, Esq.?

A. Yes. A review of the $7,775.50 paid to William Wissler, Esq. indicates various purposes including some related to the estate and, therefore, not directly related to the provision of service. Staff acknowledges that the Company is owned by the estate and that services performed for the estate may be somewhat interrelated to concerns of the Company. At this time, Staff recommends that the expenses paid to William Wissler, Esq. be shared equally between the Company and its owner, the estate. Staff awaits the Company's response to Staff's data request regarding this issue and may adjust its recommendation as appropriate.

Q. What is Staff's recommendation?

A. Staff recommends a decrease of $3,887.75 to apportion the amounts paid to William Wissler, Esq. Adding the $3,887.75 related to amounts paid to William Wissler, Esq. to the $9,538.41 for amounts paid to Moyes, Sellers and Hendricks results in a reduction to outside services for legal expenses of $13,246.16, as shown on Schedule GWB-14.

Accounting Fees

Q. What amount of accounting fees did the Company propose?

A. In response to a Staff data request the Company indicates that it proposes total accounting fees of $2,800 of which $1,800 was paid to Holm & Valenzuela, CPAs, P.C. for services in connection with preparation of the Utilities Division annual report and $1,000 to Desert Mountain Analytical Services ("DMAS") to review and adjust books to amend the 2011 Utilities Division annual report.

Q. Did Staff adjust the accounting fees proposed by the Company?

A. Yes. Staff decreased the accounting fees by $1,000 for the amounts paid to DMAS. Since these amounts were to correct the 2011 report, they are not expected to be ongoing. Also, to the extent that DMAS is correcting work performed by Holm Valenzuela, CPAs, P.C., the inclusion of the amounts paid to DMAS results in the ratepayers being burdened twice for the same service.

Q. What is Staff's overall decrease of the three items above?

A. Staff decreases outside services expense by $24,968 from $151,235 to $126,267, as shown on Schedules GWB 11 and GWB-14.

Operating Income Adjustment No.4A – Water Testing Expense

Q. What amount of water testing expense did the Company propose?

A. The Company proposes $7,584 of water testing expense.

Q. What is Staff's recommendation?

A. Staff recommends an increase of $581 from $7,584 to $8,165 to reflect Staff's recommended level of expense in this proceeding, as discussed in Staff's Engineering Report and shown on Schedules GWB-11 and GWB-15A.

Operating Income Adjustment No.4B – Insurance Expense

Q. What amount of insurance expense did the Company propose?

A. In response to a Staff data request, the Company indicates that it proposes total insurance expense of $13,290 including two policies insuring a location at 12 Garden View Court, Nogales AZ. The premiums on these policies are $1,878 and $445 for a total of $2,323. Staff has yet to receive the Company's response to an outstanding data request to clarify the business purpose of that location. However, during its visit to the Company, Staff observed this location and notes that it was the residence of the late owner, Mr. Randall, and was partially used as the now defunct office before the hiring of the interim manager who has her own office. Although this location is also the site of Well #3, the premiums on the building at this location are not necessary for the provision of service.

Q. Did Staff adjust the insurance expense proposed by the Company?

A. Yes. Staff decreases insurance expense by $2,323 from $13,290 to $10,967 to remove insurance expense not necessary for the provision of service, as shown on Schedules GWB11 and GWB-15B.

Operating Income Adjustment No. 5 – Depreciation and Amortization Expense

Q. What is the Company proposing for Depreciation and Amortization Expense?

A. The Company proposes depreciation and amortization expense of $101,017 which includes $163,889 of depreciation expense offset by $62,872 of amortization expense related to the Company's CIAC. The Company does not seek depreciation expense on certain items of plant that it considers to be fully depreciated.

Q. What adjustments did Staff make to Depreciation and Amortization Expense?

A. As discussed above in Rate Base Adjustments No. 1 and No. 2 and as shown on Schedules GWB-4, GWB-5, and GWB-6, Staff removed certain items of capitalized expenses and not used and useful plant. Accordingly, these items of plant are not included in the amounts subject to depreciation, as shown on Schedule GWB-16.

Staff agrees with the Company that certain items of plant are fully depreciated and no longer subject to depreciation, as discussed above. Staff has removed those amounts from depreciable balances, as shown on Schedule GWB-16.

Staff amortizes the CIAC at a Staff calculated composite rate of 4.0543 percent, as shown on Schedule GWB-16, as compared with the Company's use of a 5 percent depreciation rate in its calculations.

Based on these adjustments, Staff calculates depreciation expense of $158,621 offset by $51,162 of amortization expense for (net) Depreciation and Amortization Expense of $107,459, as shown on Schedules GWB-11 and GWB-16.

Q. What does Staff recommend regarding Depreciation and Amortization Expense?

A. Staff recommends an increase to Depreciation and Amortization Expense of $6,443 from $101,017 to $107,459, as shown on Schedules GWB-11 and GWB-16.

Operating Income Adjustment No. 6 – Income Taxes

Q. Please describe the Company's proposal for Income Taxes.

A. The Company proposes Income Taxes of negative $7,617. Since the Company is owned by an estate and any income from the estate would flow to individuals, the Company calculated its income tax expense using federal and state income tax rates that would apply to individuals.

Q. Did Staff make any adjustments to test year Income Taxes?

A. Yes. Staff notes that the estate is a pass through entity and any income tax allowance would be computed in accordance with the policy statement reflected in Decision No. 73739 in Docket No. W00000C-06-0149. In order to calculate an appropriate income tax allowance, Staff visited the offices of Moyes, Sellers and Hendricks and reviewed the tax return for the estate which reflected the Company activities only. In reviewing the estate's tax return, Staff noted the existence of Net Operating Loss ("NOL") carry forwards of $386,240 at the beginning of the test year and $321,051 at the end of the test year. Looking further to determine the tax effects of the water company activities on its owners, Staff notes that zero taxable income actually flowed through to the beneficiaries of the trust due to the NOL carry forward.

The policy statement included in Decision No. 73739 states, "Income tax expense shall be permitted based only upon the effective income tax rates of owners which have actual or potential state and federal income tax liability."[1] Since the NOL carry forward of the estate forecloses the possibility of actual or potential tax liability to be borne by the beneficiaries of the trust (who are effectively the owners of the Company), Staff recommends that there be no income tax allowance for this Company at this time. The absence of tax liability is present during the test year and is expected to be extended for a number of years in the future.

Q. What is Staff's recommendation?

A. Staff recommends an increase of $7,617 from a negative $7,617 to zero to Income Tax Expense, as shown on Schedules GWB-11 and GWB-17.

Operating Income Adjustment No. 7 – Property Taxes

Q. Please describe the Company's proposal for Property Taxes.

A. The Company proposes Property Taxes of $18,558, reflecting an Assessment Ratio of 20 percent.

Q. Does Staff agree with the Company's proposal for Property Taxes?

A. No. First, Staff referred to ARS §42-15001 and notes that the Assessment Ratio for 2013 is 19.5 percent. Second, Staff recognizes that any rates approved in this proceeding will likely be in effect starting in 2014 and through 2016 and recommends the use of Assessment Ratios that will be in effect in years after 2013. The Assessment Ratios are 19.0 percent, 18.5 percent, and 18.0 percent for 2014, 2015, and 2016, respectively, for an average Assessment Ratio of 18.5 percent.

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[1] See Decision No. 73739, paragraph 1 on page 3 of policy statement attached therein.

Q. What does Staff recommend?

A. Staff recommends the use of an 18.5 percent Assessment Ratio to be used in the calculation of Property Taxes for a decrease of $1,392 from $18,558 to $17,167, as shown on Schedules GWB-11 and GWB-18

REVENUE REQUIREMENTS

Q. Please describe the methodology used by the Company to calculate its proposed revenue requirements.

A. Since the Company has a negative rate base, the Company seeks to have $48,195 of cash flow to cover contingencies after it pays its expenses, debt service amounts, and repayments under its AIAC obligations. Using this target, the Company calculated a required operating income of $86,099 which would represent an operating margin of 13.38 percent applied to its calculated revenue requirements of $643,444 and would result in a DSC of 1.37.

In its application on Schedule A-1, the Company considers depreciation expense in its cash flow analysis and treats those funds as monies available to pay the Company's obligations.

Q. Please describe the methodology used by Staff to calculate Staff's recommended revenue requirements.

A. Staff calculates its recommended revenue requirements based on a cash flow analysis, subject to providing an adequate DSC ratio as required by WIFA. Staff also evaluated its revenue requirements to determine that the revenue requirements resulted in a reasonable operating margin.

At present, the Company's monthly obligation to WIFA is approximately $9,401, or $112,812 annually, including an approximate monthly payment of $1,567, or $18,804 annually, for Debt Service Reserve that is expected to cease with the Company payment on January 1, 2017. This results in net annual principal and interest payments of $94,008, as shown on Schedule GWB-1. Staff's recommended revenue requirements of $530,767 result in operating income of $53,353. Adding depreciation expense of $107,459 to Staff recommended operating income of $53,949 provides $160,812 of cash from which Staff subtracts the obligations of $112,812 for WIFA principal and interest and Debt Service Reserve payments which leaves $48,000 for contingencies and other obligations.

The Company also reports $23,596 of annual repayments under its AIAC obligations.

Staff's typical practice is to calculate the DSC using principal and interest and excluding both payments for the Debt Service Reserve and repayments under AIAC obligations since this practice reflects those at WIFA. Excluding both of these payments would result in a DSC of 1.71. Based on WIFA practices, the DSC of 1.71 would be used when evaluating compliance with WIFA debt covenants.

For informational purposes only, although Staff and WIFA do not consider repayments under AIAC obligations when calculating the DSC, Staff has recalculated a DSC of 1.37, including the repayments under AIAC obligations but not the payments to the Debt Service Reserve.

Staff also notes that the operating income of $53,353 represents a 10.05 percent operating margin. A cash flow of $48,000 and operating margin of 10.05 percent provides the Company with adequate cash flow to meet its obligations.

Q. What is Staff recommending?

A. Staff recommends revenue requirements of $530,752, as shown on Schedules GWB-1.

Other Considerations

Q. Does Staff have additional comments?

A. Yes. As discussed above, the Company is out of compliance regarding the filing of a plan to reduce its water loss to less than 10 percent. As a result, Staff recommends that any rates approved in this proceeding not become effective until the Company satisfies this requirement.

Staff further recommends that the Company take the necessary steps to settle the estate so the Company can resume a more traditional form of ownership and hire its own manager instead of using a Staff appointed interim manager. The estate of William F. Randall came into being in 2005. The continued ownership of the Company by an estate has resulted in additional legal fees that would otherwise be unnecessary, as the Company is represented by two separate law firms. As discussed above, this practice has resulted in additional legal expenses being borne by the ratepayers. Furthermore, Staff references a prior Order to Show Cause ("OSC")[2] proceeding in which the Company committed numerous and significant violations that jeopardized the provision and quality of service to its ratepayers. The OSC proceeding resulted in the appointment of an interim manager and resolution of the violations. Staff concludes the present form of ownership is not in the public interest and the continuation of such ownership of the Company should be discouraged. To these ends, Staff recommends that any cash flow or earnings of the Company not be distributed to its owners until the estate is settled, the Company is owned under a more traditional form of ownership, the Company directly retains its own

[2] See Docket No. W-01431A-07-0462, Decision No. 69882 dated August 28, 2007.

competent management, and the Company can manage being represented by no more than one counsel.

Also discussed above, Staff's recommended revenue requirements include adequate cash flow to pay $1,567 per month, or $18,804 annually, for the Company's Debt Service Reserve to WIFA and that this obligation is expected to cease in January 2017. Since the Debt Service Reserve represents funds available for the Company's use at a later time, Staff recommends that beginning with the effective date of the decision in this proceeding, the Company be required to account for the monies to meet its Debt Service Reserve and record those amounts as a regulatory liability to be evaluated in a subsequent rate proceeding. Staff also recommends that the Company be required to file a subsequent rate case by June 30, 2017 using a test year no later than December 31, 2016.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

DIRECT TESTIMONY OF GERALD BECKER

TABLE OF CONTENTS TO SCHEDULES :

SCH #		TITLE
GWB-	1	REVENUE REQUIREMENT
GWB-	2	GROSS REVENUE CONVERSION FACTOR
GWB-	3	RATE BASE - ORIGINAL COST
GWB-	4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
GWB-	5	RATE BASE ADJUSTMENT #1 REMOVE CAPITALIZED EXPENSES
GWB-	6	RATE BASE ADJUSTMENT #2 NOT USED AND USEFUL PLANT
GWB-	7	RATE BASE ADJUSTMENT #3 RECLASSIFICATIONS
GWB-	8	NOT USED
GWB-	9	NOT USED
GWB-	10	OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED
GWB-	11	SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR
GWB-	12	OPERATING INCOME ADJUSTMENT #1 - EXCESS WATER LOSS
GWB-	13	OPERATING INCOME ADJUSTMENT #2 - OFFICE SUPPLIES AND EXPENSE
GWB-	14	OPERATING INCOME ADJUSTMENT #3 - OUTSIDE SERVICES
GWB-	15A	OPERATING INCOME ADJUSTMENT #4A - INSURANCE EXPENSE
GWB-	15B	OPERATING INCOME ADJUSTMENT #4B - WATER TESTING EXPENSE
GWB-	16	OPERATING INCOME ADJUSTMENT #5 - DEPRECIATION EXPENSE
GWB-	17	OPERATING INCOME ADJUSTMENT #6 - INCOME TAXES
GWB-	18	OPERATING INCOME ADJUSTMENT #7 - PROPERTY TAX EXPENSE GRCF COMPONENT

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$ (351,683)	$ (351,683)	$ (388,497)	$ (388,497)
2	Adjusted Operating Income (Loss)	$ (26,332)	$ (26,332)	$ (3,908)	$ (3,908)
3	Current Rate of Return (L2 / L1)	7.49%	7.49%	1.01%	1.01%
4	Required Rate of Return	N/A	N/A	N/A	N/A
5	Required Operating Income (L4 * L1)	$ 86,099	$ 86,099	$ 53,353	$ 53,353
6	)perating Income Deficiency (L5 - L2)	$ 112,431	$ 112,431	$ 57,261	$ 57,261
7	Gross Revenue Conversion Factor	1.517800	1.517800	1.012240	1.012240
8	Required Revenue Increase (L7 * L6)	$ 170,653	$ 170,653	$ 57,961	$ 57,961
9	Adjusted Test Year Revenue	$ 472,791	$ 472,791	$ 472,791	$ 472,791
10	Proposed Annual Revenue (L8 + L9)	$ 643,444	$ 643,444	$ 530,752	$ 530,752
11	Required Increase in Revenue (%)	36.09%	36.09%	12.26%	12.26%
12	:ate of Return on Common Equity (%)	N/A	N/A	N/A	N/A
	Operating Income			$ 53,353	
	Depreciation & Amort.			$ 107,459	
	Income Tax Expense			$ -	
	Principal and Interest Expense			$ 94,008	
	DSC				
	[lines 37+38+39] ÷ [line 41]			1.71	

References:
Column [A]: Company Schedule A-1
Column (B): Company Schedule A-1
Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
	Calculation of Gross Revenue Conversion Factor:			
1	Revenue	100.0000%		
2	Uncollecible Factor (Line 11)	0.0000%		
3	Revenues (L1 - L2)	100.0000%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	1.2092%		
5	Subtotal (L3 - L4)	98.7908%		
6	**Revenue Conversion Factor (L1 / L5)**	1.012240		
	Calculation of Uncollecttible Factor:			
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	0.0000%		
9	One Minus Combined Income Tax Rate (L7 - L8)	100.0000%		
10	Uncollectible Rate	0.0000%		
11	Uncollectible Factor (L9 * L10)		0.00000%	
	Calculation of Effective Tax Rate:			
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
13	Arizona State Income Tax Rate	0.0000%		
14	Federal Taxable Income (L12 - L13)	100.0000%		
15	Applicable Federal Income Tax Rate (Line 44)	0.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	0.0000%		
17	Combined Federal and State Income Tax Rate (L13 +L16)		0.0000%	
	Calculation of Effective Property Tax Factor			
18	Unity	100.0000%	6.968%	
19	Combined Federal and State Income Tax Rate (L17)	0.0000%		
20	One Minus Combined Income Tax Rate (L18-L19)	100.0000%		
21	Property Tax Factor (GWB-18, L25)	1.2092%		
22	Effective Property Tax Factor (L20*L21)		1.2092%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			1.2092%
24	Required Operating Income (Schedule GWB-1, Line 5)	$ 53,353		
25	AdjustedTest Year Operating Income (Loss) (Schedule GWB-10, Line 36)	$ (3,908)		
26	Required Increase in Operating Income (L24 - L25)		$ 57,261	
27	Income Taxes on Recommended Revenue (Col. (C), L48)	$ -		
28	Income Taxes on Test Year Revenue (Col. (A), L48)	$ -		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		$ -	
30	Required Revenue Increase (Schedule GWB-1, Line 8)	$ 57,961		
31	Uncollectible Rate (Line 10)	0.0000%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	$ -		
33	Adjusted Test Year Uncollectible Expense - N/A	$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp.		$ -	
35	Property Tax with Recommended Revenue (GWB-18, Line 21)	$ 17,867		
36	Property Tax on Test Year Revenue (GWB-18, Col A, L19)	$ 17,167		
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		$ 701	
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		$ 57,962	

LINE NO.	DESCRIPTION	(A) Test Year	(B)	(C) Staff Recommended
	Calculation of Income Tax:			
39	Revenue (Sch GWB-10, Col.(C) L4, GWB-1, Col. (D), L10)	$ 472,791		$ 530,752
40	Operating Expenses Excluding Income Taxes	$ 476,699		$ 477,400
41	Synchronized Interest (L53)/ NOL Carryforward	$ (3,908)		$ 66,312
42	Arizona Taxable Income (L39 - L40 - L41)	$ -		$ (12,960)
43	Arizona State Income Tax Rate	6.5000%		6.5000%
44	Arizona Income Tax (L42 x L43)	$ -		$ (842)
45	Federal Taxable Income (L42 - L44)	$ -		$ (12,118)
46	Federal Tax	$ -		$ (4,120)
47	Total Federal Income Tax	$ -		$ (4,120)
48	Combined Federal and State Income Tax (L43 + L47)	$ -		$ -
50	Effective Tax Rate			N/A
	Calculation of Interest Synchronization:			
51	Rate Base (Schedule GWB-3, Col. (C), Line 18)			$ (388,497)
52	Weighted Average Cost of Debt			2.4000%
53	Synchronized Interest (L50 X L51)			$ (9,324)

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 4,180,261	$ (38,032)	$ 4,142,229
2	Less: Accumulated Depreciation	2,038,838	(1,219)	2,037,619
3	Net Plant in Service	$ 2,141,423	$ (36,813)	$ 2,104,609
	LESS:			
4	Contributions in Aid of Construction (CIAC)	$ 1,261,919	$ -	$ 1,261,919
5	Less: Accumulated Amortization	229,119	-	229,119
6	Net CIAC	1,032,800	-	1,032,800
7	Advances in Aid of Construction (AIAC)	1,435,957	-	1,435,957
8	Customer Meter Deposits	24,348		24,348
9	Deferred Income Taxes	-		-
10	FHSD Settlement	-		-
	ADD:			
11	Working Capital Allowance	-	-	-
			-	
12	Deferred Debits	-	-	-
		-		
13	**Original Cost Rate Base**	$ (351,683)	$ (36,813)	$ (388,497)

References:
Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-4

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] REMOVE CAPITALIZED EXPESENS ADJ #1 GWB-5	[C] Post Test Year Plant ADJ #2 GWB-6	[D] RECLASSIFICATION ADJ #3 GWB-7	[I] STAFF ADJUSTED
	PLANT IN SERVICE:						
1	302	Franchises	$ 125	$ -	$ -	$ -	$ 125
2	303	Land & Land Rights	86,093				86,093
3	304	Structures & Improvements	510,517				510,517
4	307	Wells & Springs	627,763		(5,448)	(16,138)	606,177
5	311	Pumping Equipment	384,987		(375)	29,205	413,817
6	320	Water Treatment Equipment	-				-
7	320.1	Water Treatment Plants	440,672			(14,256)	426,416
8	320.2	Solution Chemical Feeders	345				345
9	330	Distribution Reservoirs & Standpipes	-				-
10	330.1	Storage Tanks	600,476	(28,740)		719	572,455
11	330.2	Pressure Tanks.	80,630				80,630
12	331	Transmission &Distribution Mains	945,615		(3,469)	1,120	943,266
13	333	Services	79,949			(650)	79,299
14	334	Meters & Meter Installations	101,768				101,768
15	335	Hydrants	36,714				36,714
16	339	Other Plant and Misc Equipment	-				-
17	340	Office Furniture & Equipment	16,552				16,552
18	340.1	Computers and Software	-				-
19	341	Transportation Equipment	71,364				71,364
20	343	Tools, Shop, and Garage Equipment	12,063				12,063
21	345	Power Operated Equipment	44,869				44,869
22	348	Other Tangible Plant	139,758				139,758
23	**Total Plant in Service**		4,180,261	(28,740)	(9,292)	-	4,142,229
24							
25	Accumulated Depreciation		2,038,838	(479)	(740)		2,037,619
26	Net Plant in Service		$ 2,141,423	$ (28,261)	$ (8,552)	$ -	$ 2,104,609
27							
28	*LESS:*						
29	Contributions in Aid of Construction (CIAC)		$ 1,261,919				$ 1,261,919
30	Less: Accumulated Amortization		229,119				229,119
31	Net CIAC (L63 - L64)		1,032,800				1,032,800
32	Advances in Aid of Construction (AIAC)		1,435,957				1,435,957
33	Customer Meter Deposits		24,348				24,348
34	Deferred Income Taxes						-
35							-
36	*ADD:*						-
37	Working Capital Allowance						-
38	Deferred Debits			-	-		-
39	**Original Cost Rate Base**		$ (351,683)	$ (28,261)	$ (8,552)	$ -	$ (388,497)

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

RATE BASE ADJUSTMENT #1 REMOVE CAPITALIZED EXPENSES

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	320.1	Water Treatment Plants	28,740	(28,740)	-
2		Accumulated Depreciation	479	(479)	
					-

References:
Column [A] : Amount reflected in Acct. 330, Reservoirs and Tanks
Column [B] , Col [C] less Col [A]
Column [C] , Per testimony GWB

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-6

RATE BASE ADJUSTMENT #2 NOT USED AND USEFUL PLANT

LINE NO.	ACCT NO.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	307	Wells & Springs	627,763	(5,448)	622,315
2	311	Pumping Equipment	384,987	(375)	384,612
2	331	Transmission &Distribution Mains	945,615	(3,469)	942,146
		Accumulated Depreciation			-
	307	Wells & Springs		(449)	
	311	Pumping Equipment		(117)	
	331	Transmission &Distribution Mains		(173)	
		Total Adjustment		(740)	

References:
Column [A] : Amount reflected in Acct. 330, Reservoirs and Tanks
Column [B] , Col [C] less Col [A]
Column [C] , Per testimony GWB

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-7

RATE BASE ADJUSTMENT #3 RECLASSIFICATIONS

LINE NO.	ACCT NO.		[A] ORIGINAL COMPANY PROPOSAL	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	320.1	Water Treatment Plants	15,838	(15,838)	-
2	311	Pumping Equipment	-	15,838	15,838
3	307	Wells & Springs	300	(300)	-
4	311	Pumping Equipment	-	300	300
5	307	Wells & Springs	15,838	(15,838)	
6	311	Pumping Equipment	-	15,838	15,838
7	311	Pumping Equipment	1,120	(1,120)	
8	331	Transmission &Distribution Mains	-	1,120	1,120
9	311	Pumping Equipment	1,582	(1,582)	
10	320.1	Water Treatment Plants	-	1,582	1,582
11	311	Pumping Equipment	719	(719)	
12	330.1	Storage Tanks	-	719	719
13	333	Services	650	(650)	
14	311	Pumping Equipment	-	650	650
		TOTALS	36,047	-	36,047
	RECAP OF RECLASSIFICATION TOTALS BY ACCT				
15	307	Wells & Springs	16,138	(16,138)	-
16	311	Pumping Equipment	3,421	29,205	32,626
17	320.1	Water Treatment Plants	15,838	(14,256)	1,582
18	330.1	Storage Tanks	-	719	719
19	331	Transmission &Distribution Mains	-	1,120	1,120
20	333	Services	650	(650)	-
		TOTALS	36,047	-	36,047

References:
Column [A] : Amount proposed by the Company for a particular item or project
included in but not equal to the total acct. balance on Sch GWB-4
Column [B] , Col [C] less Col [A]
Column [B] : Amount recommended by Staff for a particular item or project
included in but not equal to the total acct. balance on Sch GWB-4
Staff recommended amounts per Engineering Testimony

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-10

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	Revenues	$ -	$ -	$ -	$ -	$ -
1	Water Revenues	457,207	-	457,207	57,962	515,169
2	Other Revenues	15,584		15,584		15,584
3		-	-	-		-
4	Total Operating Revenues	$ 472,791	$ -	$ 472,791	$ 57,962	$ 530,752
	Operating Expenses					
5	Salaries & Wages	$ 102,402	$ -	$ 102,402	$ -	$ 102,402
6	Purchased Water	-	-	-	-	-
7	Purchased Power	33,909	(694)	33,215	-	33,215
8	Chemicals	1,161	(24)	1,137	-	1,137
9	Repairs & Maintenance	18,882	-	18,882	-	18,882
10	Office Supplies and Expense	27,333	(7,663)	19,670	-	19,670
11	Outside Services	151,235	(24,968)	126,267	-	126,267
12	Water Testing	7,584	581	8,165	-	8,165
13	Rental Expense	-	-	-	-	-
14	Transportation Expense	6,717	-	6,717	-	6,717
15	Insurance - General Liability	13,290	(2,323)	10,967		10,967
16	Insurance - Health and Life	-	-	-	-	-
17	Rate Case Expense	12,000	-	12,000		12,000
18	Miscellaneous Expense	2,626	-	2,626		2,626
19	Depreciation & Amortization	101,017	6,442	107,459	-	107,459
20	Taxes Other Than Income	9,490	-	9,490	-	9,490
21	Property Taxes	18,558	(1,392)	17,167	701	17,867
22	Customer Security Deposit Interest	536	-	536		536
23	Income Taxes	(7,617)	7,617	-	-	-
24	**Total Operating Expenses**	$ 499,123	$ (22,423)	$ 476,699	$ 701	$ 477,400
25	**Operating Income (Loss)**	$ (26,332)	$ 22,423	$ (3,908)	$ 57,261	$ 53,353

References:
Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29, 34 and 37
Column (E): Column (C) + Column (D)

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-11

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Excess Water Loss ADJ #1 GWB-12	[C] Office Supplies and Expense ADJ #2 GWB-13	[D] Outside Services ADJ #3 GWB-14	[E] Water Testing & Insurance Exp ADJ #4A , 4B GWB-15A & 15B	[F] Deprec. Exp ADJ #5 GWB-16	[G] PROPERTY TAXES ADJ #7 GWB-18	[H] Income Taxes ADJ #6 GWB-17	[H] STAFF ADJUSTED
	Revenues									
1	Water Revenues	$ 457,207	-	-	-	-		-		457,207
2	Other Revenues	15,584	-	-	-	-		-		15,584
										-
3	Total Operating Revenues	$ 472,791	$ -	$ -	$ -	$ -		$ -		$ 472,791
	Operating Expenses									
601	Salaries & Wages	$ 102,402						$ -		$ 102,402
610	Purchased Water	-						-		-
615	Purchased Power	33,909	(694)					-		33,215
618	Chemicals	1,161	(24)							1,137
620	Repairs & Maintenance	18,882								18,882
621	Office Supplies and Expense	27,333		(7,663)						19,670
630	Outside Services	151,235			(24,968)					126,267
635	Water Testing	7,584				581 4A				8,165
641	Rental Expense	-								-
650	Transportation Expense	6,717								6,717
657	Insurance - General Liability	13,290				(2,323) 4B				10,967
659	Insurance - Health and Life	-								-
666	Rate Case Expense	12,000								12,000
675	Miscellaneous Expense	2,626								2,626
403	Depreciation & Amortization	101,017					6,442			107,459
408	Taxes Other Than Income	9,490								9,490
408	Property Taxes	18,558						(1,392)		17,167
										-
427	Customer Security Deposit Interest	536								536
428	General Taxes-Other									-
409	Income Taxes	(7,617)							7,617	-
410	**Total Operating Expenses**	$ 499,123	$ (718)	$ (7,663)	$ (24,968)	$ (1,742)	$ 6,442	$ (1,392)		$ 476,699
411	**Operating Income**	$ (26,332)	$ 718	$ 7,663	$ 24,968	$ 1,742	$ (6,442)	$ 1,392		$ (3,908)

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-12

OPERATING INCOME ADJUSTMENT #1 - EXCESS WATER LOSS

LINE NO.			
1	One plus allowable water loss		110.00%
2	One plus actual water loss		112.30%
3	Allowable portion		97.95%
4	Disallowable portion		2.05%
5	Power Expense		33,909
6	Disallowance	$	694
7	Chemical Expense		1,161
8	Disallowance	$	24

Line 1: Maximum acceptable level of water losses
Line 2: Actual level of water losses
Line 3: Line 2 / line 3
Line 4: 1 minus line 4
Lines 5, and 7: Per Schedule GWB-11, Col [A]
Line 9 : Per Schedule GWB-11, Col [A] plus Col [D]
Line 6: Line 5 times line 4
Line 8: Line 7 times line 4
Line 10: Line 9 times line 4

Per Eng. Report	Water Sold	Water Pumped	Loss	% Loss
East System	51,770,000	62,433,000	10,663,000	17.1%
West System	31,677,000	32,738,000	1,061,000	3.2%
Total	83,447,000	95,171,000	11,724,000	12.3%

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-13

OPERATING INCOME ADJUSTMENT #2 - OFFICE SUPPLIES AND EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		$ 27,333	$ (7,663)	$ 19,670
	Trash Removal	$ 954	$ (954)	
	Office - Gas	$ 579	$ (579)	$ -
	Office - Electricity	$ 1,050	$ (1,050)	
	WIFA Admin Fees	$ 5,080	$ (5,080)	
	Total	$ 7,663	$ (7,663)	

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B)

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-14

OPERATING INCOME ADJUSTMENT #3 - OUTSIDE SERVICES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
	Management Fees	$128,936.53	$ (10,541.53)	$ 118,395.00
	Legal Fees	$ 19,497.91	$ (13,426.16)	$ 6,071.75
	Accounting Fees	$ 2,800.00	$ (1,000.00)	$ 1,800.00
	Total Outside Services	$151,234.44	$ (24,967.69)	$ 126,266.75

References:
Column (A), Per Company Response to Staff data request
Column (B): Testimony GWB
Column (C): Column (A) + Column (B)

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-15A

OPERATING INCOME ADJUSTMENT #4A - INSURANCE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		$ 13,290	$ (2,323)	$ 10,967

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B)

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-15B

OPERATING INCOME ADJUSTMENT #4B - WATER TESTING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		$ 7,584	$ 581	$ 8,165

References:
Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B), Per
Staff Engineering Response

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-16

OPERATING INCOME ADJUSTMENT #5 - DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	DESCRIPTION	[A] PLANT BALANCE	[B] FULLY DEPRECIATED	[C] DEPRECIABLE AMOUNT	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE
1	*PLANT IN SERVICE:*						
2	302	Franchises	$ 125		$ 125	0.00%	-
3	303	Land & Land Rights	86,093		86,093	0.00%	-
4	304	Structures & Improvements	510,517		510,517	3.33%	17,000
5	307	Wells & Springs	606,177		606,177	3.33%	20,186
6	311	Pumping Equipment	413,817		413,817	12.50%	51,727
7	320	Water Treatment Equipment	-		-		-
8	320.1	Water Treatment Plants	426,416	(4,533)	421,883	3.33%	14,049
9	320.2	Solution Chemical Feeders	345		345	20.00%	69
10	330	Distribution Reservoirs & Standpipes	-		-	0.00%	-
11	330.1	Storage Tanks	572,455		572,455	2.22%	12,709
12	330.2	Pressure Tanks.	80,630		80,630	5.00%	4,032
13	331	Transmission &Distribution Mains	943,266		943,266	2.00%	18,865
14	333	Services	79,299	(51,108)	28,191	3.33%	939
15	334	Meters & Meter Installations	101,768		101,768	8.33%	8,477
16	335	Hydrants	36,714		36,714	2.00%	734
17	339	Other Plant and Misc Equipment	-		-	6.67%	-
18	340	Office Furniture & Equipment	16,552	(16,552)	-	6.67%	-
19	340.1	Computers and Software	-		-	20.00%	-
20	341	Transportation Equipment	71,364	(71,364)	-	20.00%	-
21	343	Tools, Shop, and Garage Equipment	12,063		12,063	5.00%	603
22	345	Power Operated Equipment	44,869		44,869	5.00%	2,243
23	348	Other Tangible Plant	139,758		139,758	5.00%	6,988
28		Total Utility Plant in Service	4,142,229	(143,557)	3,998,672		158,621
29		Less: Non Depreciable Plant					
30		Land Rights			86,093		
31		Franchises			$ 125		
32		Net Depreciable Plant and Depreciation Amounts			$ 3,912,454		$ 158,621
33							
34		Amortization of CIAC			$ 1,261,919	4.0543%	$ 51,162
35		Staff Recommended Depreciation Expense					$ 107,459
36		Company Proposed Depreciation Expense					$ 101,017
37		Staff Adjustment					$ 6,442

	References:
Col [A]	Schedule GWB-4
Col [B]	Fully Depreciated Plant, per Company Application
Col [C]	Col [A] less Col [B]
Col [D]	Proposed Rates per Staff Engineering
Col [E]	Col [A] times Col [B]

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-17

OPERATING INCOME ADJUSTMENT #6 - INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Taxes	$ (7,617)	$ 7,617	$ -

References:
Column (A), Company Schedule C-2
Column (B): Testimony GWB
Column (C): Column (A) + Column (B),
see also Sch. GWB-2, line 48

Estate of William F. Randall dba Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended December 31, 2012

Schedule GWB-18

OPERATING INCOME ADJUSTMENT #7 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	$ 472,791	$ 472,791
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	945,582	945,582
4	Staff Adjusted Test Year Revenues - 2011	472,791	
5	Staff Recommended Revenue		530,753
6	Subtotal (Line 4 + Line 5)	1,418,373	1,476,335
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	472,791	492,112
9	Department of Revenue Mutilplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	945,582	984,224
11	Plus: 10% of CWIP	830	830
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 10 + Line 11 - Line 12)	946,412	985,054
14	Assessment Ratio	18.5%	18.5%
15	Assessment Value (Line 13 * Line 14)	175,086	182,235
16	Composite Property Tax Rate	9.8046%	9.8046%
17	Staff Test Year Adjusted Property Tax Expense (Line 15 * Line 16)	$ 17,167	
18	Company Proposed Property Tax	$ 18,558	
19	Staff Test Year Adjustment (Line 17 - Line 18)	**$ (1,392)**	
20	Property Tax on Staff Recommended Revenue (Line 15 * Line 16)		$ 17,867
21	Staff Test Year Adjusted Property Tax Expense (Line 17)		$ 17,167
22	Increase in Property Tax Due to Increase in Revenue Requirement		**$ 701**
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		$ 701
24	Increase in Revenue Requirement		$ 57,962
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		1.20923%

REFERENCES:
Line 15: Composite Tax Rate, per Company
Line 18: Company Schedule C-1, Line 36

Rate Design

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF THE ESTATE OF WILLIAM F. RANDALL DBA VALLE VERDE WATER COMPANY FOR AN INCREASE IN ITS WATER RATES	)))))	DOCKET NO. W-01431A-13-0265

RATE DESIGN

DIRECT TESTIMONY

OF

GERALD BECKER

EXECUTIVE CONSULTANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 13, 2014

TABLE OF CONTENTS

Page

INTRODUCTION 1

BACKGROUND 2

RATE DESIGN 3

MISCELLANEOUS SERVICE CHARGES 6

SCHEDULES

Rate Design GWB-1

Typical Residential Bill Analysis GWB-2

EXECUTIVE SUMMARY
THE ESTATE OF WILLIAM F. RANDALL
DBA VALLE VERDE WATER COMPANY
DOCKET NO. W-01431A-13-0265

The Estate of William F. Randall dba Valle Verde Water Company ("Valle Verde" or "Company") is a certificated Arizona public service corporation that provides water service near the City of Nogales in Santa Cruz County. The average number of customers for the Company during the test year was approximately 760 customers in its 1.5 square mile service territory.

Typical 5/8 x 3/4-inch meter residential customers with a median usage of 5,171 gallons would experience a $10.20 or a 39.16 percent increase in their monthly bill from $28.20 to $38.39 under the Company's proposed rates and a $1.98 or a 7.01 percent increase in their monthly bill from $28.20 to $30.17 under Staff's recommended rates.

Staff recommends approval of its recommended rates and charges as shown on the attached schedules.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Gerald Becker. I am an Executive Consultant III employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as an Executive Consultant III.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. In addition, I develop revenue requirements, and prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Masters of Business Administration with an emphasis in Accounting from Pace University. I am a Certified Public Accountant and a Certified Internal Auditor. I am a member of the Arizona State Society of Certified Public Accountants.

I have participated in multiple rate, financing and other regulatory proceedings. I attended the National Association of Regulatory Utility Commissioners ("NARUC") Utilities Rate School.

I began employment with the Commission as a utilities regulatory analyst in April 2006. Prior to joining the Commission, I worked as an Auditor at the Department of Economic Security and Department of Revenue in the Taxpayer Assistance Section. Prior to those jobs, I worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget Manager at United Illuminating, an investor-owned electric company in New Haven, CT.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations regarding Chaparral City Water Company's ("Company" or "CCWC") applications for permanent increases in its rates and charges.

Q. What is the basis of your current testimony in this case?

A. Based on the adjustments and revenue requirements recommended by Staff, I am presenting Staff's recommended rate designs.

BACKGROUND

Q. Please review the background of these applications.

A. The Estate of William F. Randall dba Valle Verde Water Company ("Valle Verde" or "Company") is a certificated Arizona public service corporation that provides water service to customers near the City of Nogales in Santa Cruz County. Valle Verde is owned by the estate of William F. Randall.

The Company's current rates were authorized in Decision No. 71899 dated September 20, 2010. That Decision authorized a $285,075 revenue increase, or 103.04 percent increase over then test year revenues of $276,656, that provided a 10.09 percent operating margin rate of return. The negative fair value rate base of $593,061 was not meaningful. Decision No. 71899 also authorized a temporary surcharge of $.60 per thousand gallons to pay for indebtedness to the City of Nogales for water that was purchased when Valle Verde had problems with its own wells.

On May 17, 2012, the Company filed the Company filed an application pursuant to A.R.S. §40-252 asking the Commission to amend Decision No. 71899 to continue a temporary surcharge and to apply the revenues gained thereby to pay Southwestern Utility Management, Inc., the Company's interim ("Interim Manager") which had been appointed by the Commission in 2007 to ensure the continuation of adequate service at reasonable rates. The Company had been owned and operated by William F. Randall; after his death, the Company fell into financial and operational disarray. At that time, the Company owed the Interim Manager $78,589.03. The Commission issued Decision No. 73353 (August 21, 2012) which authorized continuation of the surcharge to pay indebtedness owed to the Company's Interim Manager, subject to certain conditions discussed more fully therein.

The debt to the Interim Manager is expected to be repaid by the time that the instant case will be decided, and is not included in Staff's recommended revenue requirements in this proceeding.

RATE DESIGN

Q. Did Staff prepare schedules showing the present, Company-proposed, and Staff-recommended rates and charges?

A. Yes. Staff Schedule GWB-1 shows the present monthly minimum charges and commodity rates, the Company's proposed monthly minimum charges and commodity rates and Staff's recommended monthly minimum charges and commodity rates. The schedules also show the present, proposed and recommended service charges. A summary of the present, Company-proposed and Staff-recommended rates is presented in the following section.

Q. Would you please summarize the present rate design for Valle Verde?

A. The present monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch $18.00, 3/4-inch $18.00, 1-inch $43.00, 1 1/2-inch $86.00, 2-inch $138.00, 3-inch $275.00, 4-inch $429.00, and 6-inch $857. No gallons are included in the monthly minimum charge. The residential water commodity rate for the 5/8 x 3/4-inch and 3/4-inch customers is $1.30 per thousand gallons for zero to 3,000 gallons, $2.90 per thousand gallons for 3,001 to 10,000 gallons, and $4.25 per thousand gallons for any consumption over 10,000 gallons. The larger residential, commercial, and hydrant commodity break-over points vary by meter size, but are $2.90 per thousand gallons for the first tier and $4.25 per thousand gallons for any consumption over the first tier. The present rate design also has monthly minimum and commodity charges for hydrant and governmental customers that are billed the same rates as the commercial customers.

Q. Would you please summarize the Company's proposed rate design?

A. The Company's proposed monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch $25.00, 3/4-inch $25.00, 1-inch $62.50, 1 1/2-inch $125.00, 2-inch $200.00, 3-inch $400.00, 4-inch $625.00, and 6-inch $1,250.00. Zero gallons are included in the monthly minimum charge for all customers. The Company proposed changes to the break over points for both residential and commercial 5/8 x 3/4-inch and the 3/4-inch customers. The Company proposes a 3-tier inverted residential commodity rate for the 5/8 x 3/4-inch and 3/4-inch customers of $1.75 per thousand gallons for zero to 3,000 gallons, $3.75 per thousand gallons for 3,001 to 7,000 gallons, and $5.53 per thousand gallons for any consumption over 7,000 gallons. The other proposed residential commodity rate tiers vary by meter size, but are $3.75 per thousand gallons for the first tier and $5.53 per thousand gallons for any consumption over the first tier. The Company is proposing an increase in its meter and commodity charges for commercial, governmental, and hydrant customers.

The Company is not proposing any increases to the monthly and commodity charges for private fire service.

Q. Would you please summarize Staff's recommended rate design?

A. Staff's recommended rates and charges are presented on Schedule GWB-1. Staff's recommended monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch $20.00, 3/4-inch $20.00, 1-inch $50.00, 1 1/2-inch $100.00, 2-inch $160.00, 3-inch $320.00, 4-inch $500.00, 6-inch $1,000, 8-inch $1,600 and 10-inch $2,300 and 12-inch $4,300. Zero gallons are included in the monthly minimum charge for all customers. Staff agrees with the Company's proposed changes to the break over points for both residential and commercial 5/8 x 3/4-inch and the 3/4-inch customers. For the 5/8 x 3/4-inch and 3/4-inch residential customers, Staff recommends a 3-tier inverted rate design with commodity charges of $.90 per thousand gallons for zero to 3,000 gallons, $3.38 per thousand gallons for 3,001 to 7,000 gallons, and $4.80 per thousand gallons for any consumption over 7,000 gallons. Staff's recommended larger residential, commercial, and hydrant commodity rates have two tiers and vary by meter size, set at $3.38 per thousand gallons for the first tier and $4.80 per thousand gallons for any consumption over the first tier. Staff recommends increases in meter and commodity charge for commercial, governmental and hydrant customers. Staff recommends no increase to the monthly or commodity charge for fire sprinkler service, to remain the greater of $10.00 or 2 percent of the monthly minimum charge for that meter size.

Q. What is the rate impact on a typical 5/8 x 3/4-inch meter residential customer?

A. The typical 5/8 x 3/4-inch meter residential customer with a median usage of 5,171 gallons would experience a $10.20 or a 39.16 percent increase in his monthly bill from $28.20 to $38.39 under the Company's proposed rates and a $1.84 or a 6.53 percent increase in his monthly bill from $28.20 to $30.04 under Staff's recommended rates. A typical bill analysis is provided on Schedule GWB-2.

MISCELLANEOUS SERVICE CHARGES

Q. Does Staff have any comments related to service charges?

A. Yes. Staff agrees with the Company's proposed Service Charges, with the following exceptions:

The Company currently has an establishment of service after-hours charge of $40 and wants to keep this rate in place. The Company also has a reconnection of service after-hours charge of $50.00 and wants to keep this rate in place.

Staff agrees that an additional fee for service provided after normal business hours is appropriate when such service is at the customer's request. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service. Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request. Therefore, Staff recommends the removal of both the establishment of service – after hours charge and reconnection of service after-hours charge. For example, under Staff's proposal, a customer would be subject to a $30 establishment of service if it is done during normal business hours, but would pay an additional $20 after-hours fee if customer requested that the establishment of service be done after normal working hours.

Q. What does Staff recommend?

A. Staff recommends the approval of its Services Charges as shown on Schedule GWB-1.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
Meter Size (All Classes):			
5/8 x 3/4 Inch	$ 18.00	$ 25.00	$ 20.00
3/4 Inch	18.00	25.00	20.00
1 Inch	43.00	62.50	50.00
1 1/2 Inch	86.00	125.00	100.00
2 Inch	138.00	200.00	160.00
3 Inch	275.00	400.00	320.00
4 Inch	429.00	625.00	500.00
6 Inch	857.00	1,250.00	1,000.00
8 Inch	N/A	N/A	1,600.00
10 Inch	N/A	N/A	2,300.00
12 Inch	N/A	N/A	4,300.00
Commodity Charge - Per 1,000 Gallons			
5/8" x 3/4" Meter and 3/4" (Residential)			
First 3,000 gallons	$ 1.3000	N/A	N/A
3,001 to 10,000 gallons	2.9000	N/A	N/A
Over 10,000 gallons	4.2500	N/A	N/A
First 3,000 gallons	N/A	$ 1.7500	$ 0.9000
3,001 to 7,000 gallons	N/A	3.7500	3.3800
Over 7,000 gallons	N/A	5.5300	4.8000
5/8" x 3/4" and 3/4" Meter (Non-Residential)			
First 10,000 gallons	2.9000	N/A	N/A
Over 10,000 gallons	4.2500	N/A	N/A
First 7,000 gallons	N/A	3.7500	3.3800
Over 7,000 gallons	N/A	5.5300	4.8000
1" Meter (All Meters)			
First 15,000 gallons	2.9000	3.7500	3.3800
Over 15,000 gallons	4.2500	5.5300	4.8000
1 1/2" Meter (All Classes)			
First 20,000 gallons	2.9000	3.7500	3.3800
Over 20,000 gallons	4.2500	5.5300	4.8000
2" Meter (All Classes)			
First 25,000 gallons	2.9000	3.7500	3.3800
Over 25,000 gallons	4.2500	5.5300	4.8000
3" Meter (All Classes)			
First 70,000 gallons	2.9000	3.7500	3.3800
Over 70,000 gallons	4.2500	5.5300	4.8000
4" Meter (All Classes)			
First 150,000 gallons	2.9000	3.7500	3.3800
Over 150,000 gallons	4.2500	5.5300	4.8000
6" Meter (All Classes)			
First 500,000 gallons	1.9100	2.0000	3.3800
Over 500,000 gallons	3.0300	3.6600	4.8000
8" Meter (All Classes)			
First 625,000 gallons	N/A	N/A	3.3800
Over 625,000 gallons	N/A	N/A	4.8000
10" Meter (All Classes)			
First 900,000 gallons	N/A	N/A	3.3800
Over 900,000 gallons	N/A	N/A	4.8000
12" Meter (All Classes)			
First 1,720,000 gallons	N/A	N/A	3.3800
Over 1,720,000 gallons	N/A	N/A	4.8000
Temporary Interim Manager Surcharge (per 1,000 gallons)			
All Gallons	0.6000	0.6000	-

Other Service Charges			
Establishment	$ 30.00	$ 30.00	$ 30.00
Establishment (After Hours)	$ 40.00	$ 40.00	N/A
Reconnection (Delinquent)	$ 40.00	$ 40.00	$ 30.00
Reconnection (Delinquent) - After Hours	$ 50.00	$ 50.00	N/A
Meter Test (If Correct)	$ 35.00	$ 35.00	$ 35.00
Deposit	*	*	*
Deposit Interest	**	**	**
Reestablishment (within 12 months)	***	***	***
NSF Check	$ 35.00	$ 30.00	$ 30.00
Late Payment Penalty	1.5% per month	1.5% per month	1.5% per month
Deferred Payment	1.5% per month	1.5% per month	1.5% per month
Meter Re-read (if correct)	$ 20.00	$ 20.00	$ 20.00
After Hours Service Charge (a)	N/A	N/A	20.00

* Per Commission Rule A.A.C. R14-2-403(B)
** Per Commission Rule A.A.C. R14-2-403(B)
*** Per Commission Rule A.A.C. R14-2-403(D) - Months off the

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

(a) In addition to the charge for any utility service provided after hours at the customer's request.

Refundable Meter and Service Line Charges

	Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Install-ation Charge	Total Recommended Charge
5/8 x 3/4 Inch	$ 445.00	$ 155.00	$ 600.00	$ 445.00	$ 155.00	$ 600.00	$ 445.00	$ 155.00	$ 600.00
3/4 Inch	$ 445.00	$ 255.00	$ 700.00	$ 445.00	$ 255.00	$ 700.00	$ 445.00	$ 255.00	$ 700.00
1 Inch	$ 495.00	$ 315.00	$ 810.00	$ 495.00	$ 315.00	$ 810.00	$ 495.00	$ 315.00	$ 810.00
1 1/2 Inch	$ 550.00	$ 525.00	$ 1,075.00	$ 550.00	$ 525.00	$ 1,075.00	$ 550.00	$ 525.00	$ 1,075.00
2 Inch / Turbine	$ 830.00	$ 1,045.00	$ 1,875.00	$ 830.00	$ 1,045.00	$ 1,875.00	$ 830.00	$ 1,045.00	$ 1,875.00
2 Inch / Compound	$ 830.00	$ 1,890.00	$ 2,720.00	$ 830.00	$ 1,890.00	$ 2,720.00	$ 830.00	$ 1,890.00	$ 2,720.00
3 Inch / Turbine	$ 1,045.00	$ 1,670.00	$ 2,715.00	$ 1,045.00	$ 1,670.00	$ 2,715.00	$ 1,045.00	$ 1,670.00	$ 2,715.00
3 Inch / Compound	$ 1,165.00	$ 2,545.00	$ 3,710.00	$ 1,165.00	$ 2,545.00	$ 3,710.00	$ 1,165.00	$ 2,545.00	$ 3,710.00
4 Inch / Turbine	$ 1,490.00	$ 1,737.00	$ 3,227.00	$ 1,490.00	$ 2,670.00	$ 4,160.00	$ 1,490.00	$ 2,670.00	$ 4,160.00
4 Inch / Compound	$ 1,670.00	$ 3,645.00	$ 5,315.00	$ 1,670.00	$ 3,645.00	$ 5,315.00	$ 1,670.00	$ 3,645.00	$ 5,315.00
6 Inch / Turbine	$ 2,210.00	$ 3,766.00	$ 5,976.00	$ 2,210.00	$ 5,025.00	$ 7,235.00	$ 2,210.00	$ 5,025.00	$ 7,235.00
6 Inch / Compound	$ 2,330.00	$ 6,920.00	$ 9,250.00	$ 2,330.00	$ 6,920.00	$ 9,250.00	$ 2,330.00	$ 6,920.00	$ 9,250.00
Over 6 Inches	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Valle Verde Water Company
Docket No. W-01431A-13-0265
Test Year Ended: December 31, 2012

Schedule GWB-2

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons		Present Rates		Proposed Rates		Dollar Increase	Percent Increase
Average Usage	6,049	$	30.74	$	41.68	$	10.94	35.59%
Median Usage	5,171		28.20		38.39	$	10.20	36.16%
Staff Recommended								
Average Usage	6,049	$	30.74	$	33.01	$	2.26	7.36%
Median Usage	5,171		28.20		30.04	$	1.84	6.53%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption		Present Rates		Company Proposed Rates	% Increase		Staff Recommended Rates	% Increase
-	$	18.00	$	25.00	38.89%	$	20.00	11.11%
1,000		19.30		26.75	38.60%		20.90	8.29%
2,000		20.60		28.50	38.35%		21.80	5.83%
3,000		21.90		30.25	38.13%		22.70	3.65%
4,000		24.80		34.00	37.10%		26.08	5.16%
5,000		27.70		37.75	36.28%		29.46	6.35%
6,000		30.60		41.50	35.62%		32.84	7.32%
7,000		33.50		45.25	35.07%		36.22	8.12%
8,000		36.40		50.78	39.51%		39.60	8.79%
9,000		39.30		56.31	43.28%		42.98	9.36%
10,000		42.20		61.84	46.54%		46.36	9.86%
11,000		46.45		67.37	45.04%		51.16	10.14%
12,000		50.70		72.90	43.79%		55.96	10.37%
13,000		54.95		78.43	42.73%		60.76	10.57%
14,000		59.20		83.96	41.82%		65.56	10.74%
15,000		63.45		89.49	41.04%		70.36	10.89%
16,000		67.70		95.02	40.35%		75.16	11.02%
17,000		71.95		100.55	39.75%		79.96	11.13%
18,000		76.20		106.08	39.21%		84.76	11.23%
19,000		80.45		111.61	38.73%		89.56	11.32%
20,000		84.70		117.14	38.30%		94.36	11.40%
25,000		105.95		144.79	36.66%		118.36	11.71%
30,000		127.20		172.44	35.57%		142.36	11.92%
35,000		148.45		200.09	34.79%		166.36	12.06%
40,000		169.70		227.74	34.20%		190.36	12.17%
45,000		190.95		255.39	33.75%		214.36	12.26%
50,000		212.20		283.04	33.38%		238.36	12.33%
75,000		318.45		421.29	32.29%		358.36	12.53%
100,000		424.70		559.54	31.75%		478.36	12.63%